

September 12, 1979

LETTER 765

Aug. 30, DJIA 887.63; PTI 1123; A-D ratio -15.85  
Sept. 7, DJIA 874.23; PTI 1121; A-D ratio -16.51

**STRATEGY:** I've said it dozens of times before, but for the benefit of new subscribers I'll repeat it. In an era of high inflation such as the one we are now in, every man and woman must face the depressing fact that the actual unit of wealth (i.e., the currency of the realm) is being systematically destroyed. In this kind of environment, one's purchasing power is in constant and continuing jeopardy. From the investment standpoint, therefore, I have been saying that **THE WINNER IS THE ONE WHO LOSES THE LEAST.**

"Ah," you retort, "but I've put all my assets in gold." Or you say, "I've got every cent wrapped up in my home." "My rare stamps have actually beat inflation," you gloat. I've had some experience with these same concepts. I've been collecting rare US stamps for many years. I own my own home. I have gold. And I also have cash, bonds and stocks. "Why the latter?" you ask, "Who needs bonds and cash or even stocks when the US Government is spending its fool head off, then printing funny-money to pay the deficits."

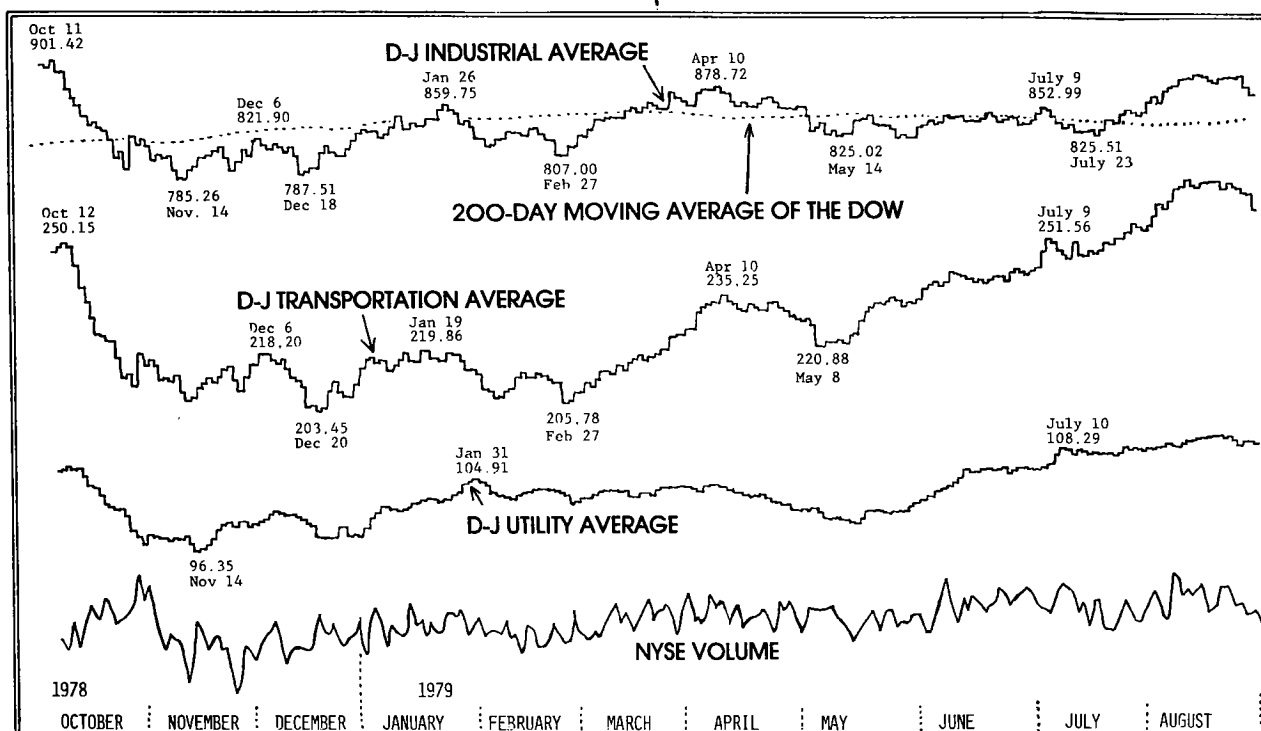
And my answer is that in today's environment (particularly over the shorter-term), **NOTHING IS CERTAIN.** Furthermore, I have a strange and exotic habit. I like to get my nightly 6 hours of sleep. If Fed Reserve Chairman Volcker decides that he's deadly serious about knocking down inflation (and he just could be), gold could tumble. If the Fed or the Treasury makes a miscalculation, they could just push this nation "over the edge." If Carter decides that the nation's currency is more important than winning in 1980, the dollar could take off and deflation could set in. If some unforeseen event occurs which throws the US banking system into chaos, cash could become the hottest item around.

**Front Page Comment:** Last week's report included the chart of gold, a chart that showed the amazing accelerating (upward) curve in the metal. That chart prompted a call from R. E. McMasters (commodity expert and publisher of "The Reaper"). We discussed the meaning of the current picture in all markets. R.E. said that he believed the various commodities could be poised to explode out of strong bases. He feels that commodities and stocks are the only readily available items that have not moved up in line with today's rampant inflation.

I added that the exponential rise in gold (as shown in the chart in the last report) had frightening implications. For the fact is that the markets of the entire world are beginning to resemble a **MASSIVE FLIGHT FROM PAPER, ANY PAPER!** Foreign stock markets are pushing higher. I keep an A-D line of 16 foreign stock markets and this A-D line is now at a new record high. Gold, silver, precious metals, all are soaring. The commodity indices are pressing against the top of a huge trading range. But what of stocks, what of the lowly equities?

In line with what I wrote in the last report, my belief is that equities could be next in line to participate in the "inflation follies." Stocks, as gauged by a large number of leading indices, have gone nowhere in over a decade. But this dormant period could be coming to an end.

We Americans have never seen a true flight from paper. Since World War II we've listened to Presidents and politicians TALK about ending inflation and balancing the budget, but in the end the words were just that—words. Inflation in the US is now running at a rate of about 13% (that's the admitted figure). At that rate, the purchasing power of the dollar will be cut in half



in less than 6 years. This fact is beginning to dawn on Americans. The second fact they are realizing is that our Government *likes* inflation, for inflation allows them to handle their ballooning debt. The public reaction—protect yourself! And it is at this point that the markets, rather than the politicians, do the talking.

To put it another way, if Washington decides that the path to votes is to fight inflation (which I must admit, is doubtful), things could stall. Remember, up to now Washington (despite what it has been saying) has been fighting recession—not inflation. Washington has never fought inflation. But it might. If that happens, those with all their eggs in the inflation basket will have to make difficult decisions (while losing sleep in the process).

We must also remember that Washington does not like the sight of gold hitting daily new highs. When you own gold, you are “fighting city hall.” “Fighting city hall,” you smirk, “forget it. I’m just fighting a bunch of incompetents. These guys in Washington don’t have the will, the method or the desire to stop inflation!” True, perhaps, but it’s easy to become arrogant here if you’ve been wise enough to keep up with—or even beat inflation. Therefore, I personally find that **WITH DIVERSIFICATION COMES SLEEP**. And I constantly remind myself of that old truism, “a government will do anything it has to, **ANYTHING**, in order to perpetuate itself.” Out of that phrase came my decision to diversify—even in this era of rampant inflation.

In the last Letter I made the case for July, 1979 being a watershed or historical month in terms of a turn in investors’ sentiment towards the stock market and equities. We now learn that in August the short interest on the NYSE went over the half-century mark for the first time in history—to 50.4 million shares sold short (up a remarkable 40% in a period of 6 months). Even allowing for arbitrage shorts, this is a huge total of stock betting

for the decline—in a market that tends to “dry up and hold” whenever weakness appears to be taking over.

What has been happening is that the seemingly endless parade of bad news has encouraged people to bet on a market collapse, a cave-in that would reap quick fortunes for the short sellers. But it is equally clear that at 6.9 times earnings, at a substantial discount from book value, at average yields near 6%, the Dow Industrials (and most stocks) have **ALREADY DISCOUNTED** bad news, more bad news, carloads of bad news—and in fact, probably **ALL THE BAD NEWS** that is going to hit this nation in the foreseeable future. A record prime rate, rising T-bill yields, adverse monetary factors, sliding worker productivity, the OPEC squeeze, Jimmy Carter, all the bad news you can think of and more is built into the current price structure.

In my opinion, future market historians may look back on July, 1979 as the turning point for pessimism, the emotional bottom for investors’ attitudes towards the stock market. People can get just so bearish, the markets can get just so wrung out, and then—and then the turn comes. This time the turn is (I believe) going to be very, very *subtle*. We’re going to see (regardless of earnings) a turn in the price/earnings ratios. The 6 to 7 P/E area is, in my opinion, fated to be an historical low point for P/E’s on the Dow.

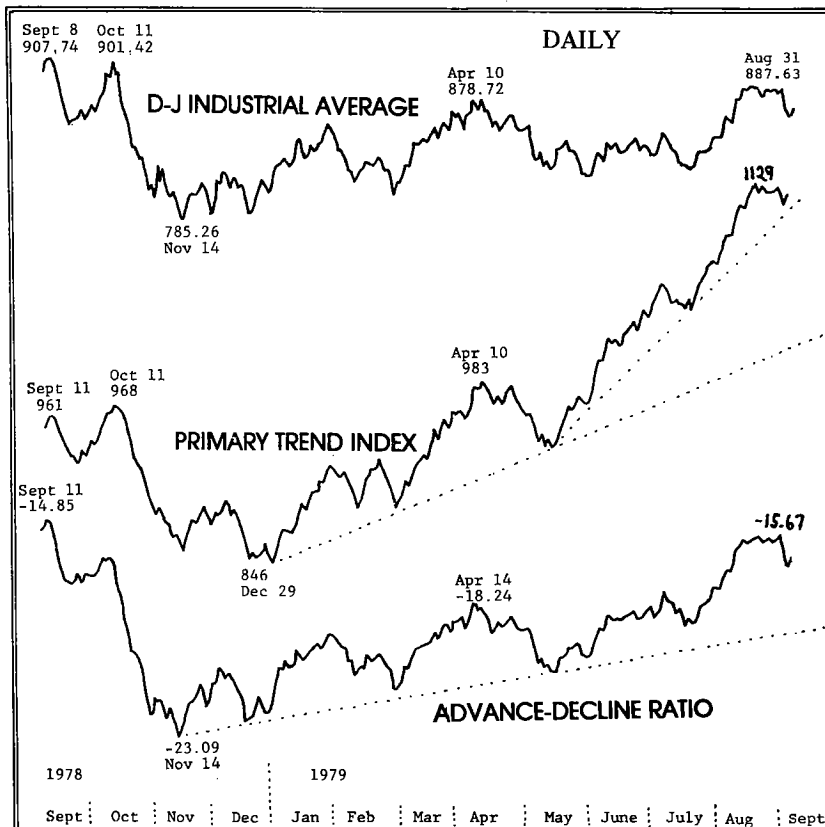
**TACTICS:** On September 4 and 5 the market (having been “overbought” for weeks on end) turned down with a vengeance. It didn’t just turn down, it panicked. The A-D ratio lost over 1 point in those two days, and the odd-lot public selling jumped to an incredible 3.4 shares sold (Sept. 5) for every 1 share purchased, the biggest sell-to-buy ratio in years.

On the face of it, this kind of action suggests that the public is scared to death of this market and ready to run at the drop of a hat. I mentioned in the last Letter that September and October are tough months to get through, and this may well be the case in 1979. With the Fed tightening the interest rate screws, with the business news shaky at best, with President Carter looking as powerless as ever, the market will be put to the test.

I made the case for the bulls in the last Letter, and I think it’s a good and valid case. But I know as well as you do that in the final analysis, the market does the deciding. And I know that a man is a damn fool if he watches the market spoil his case—and he continues to argue that he’s right. I never take a stand (bullish or bearish) without announcing market limits which, if hit, will make me wrong. And the following are the limits I am putting on my bull thesis.

The bull case depended strongly on the Dow having hit the 821 level for the final time last July. Therefore, 821 on the Dow (actually the June low was 821.21 and the July low was 825.51) should **hold**. If, on any reaction, the Dow plunges below 821, I would consider this a very disappointing and bearish signal, and in that case I would advise a move back out of stocks.

The comparable (confirming) level for Transports on the downside is the 220.88 level of May 8, but this point is too far down to wait for—in case of a continued decline. Therefore, I am saying that Dow 821 is the cut-off level. If 821 cannot hold in the period ahead, we will take the money and run.



Now turn to the daily chart of the Dow, the Primary Trend Index (PTI) and the A-D ratio. The PTI is close to breaking its steepest trendline, and this is to be expected. But the PTI is still far above its main (shallower) rising trendline, and as long as this trendline holds the picture will appear constructive. At the bottom of the chart we see the daily action on the A-D ratio (this ratio is actually a proxy for the whole NYSE). The A-D is still two points above its rising trendline and 5 points above its November 14 low. It would be very encouraging to see the A-D hold above its trendline on any further September-October weakness.

Another thought: after a panic decline such as September 4 and 5, it's normal to see a little rally, then a testing of the decline lows. Often one Average (Industrials or Transports) will break to a new low as volume contracts. Such a test is a bullish one.

Second thought: the Dow rallied from a June low of 821.21 to an August high of 887.63. The halfway point of that rally is 854.42. I would consider it a major bull plus if (on any further weakness) the Dow can hold above 854.42.

**THE BIG PICTURE:** Long-term perspective is essential in dealing with the markets, and this chart should give us a good idea of the current market picture. I discuss the Primary Trend Index in each Letter, but I think this is the first time that I have shown a long-term chart of the PTI. The PTI is an amalgam of 8 critical indices and averages. It's a technical device that I have more and more faith in.

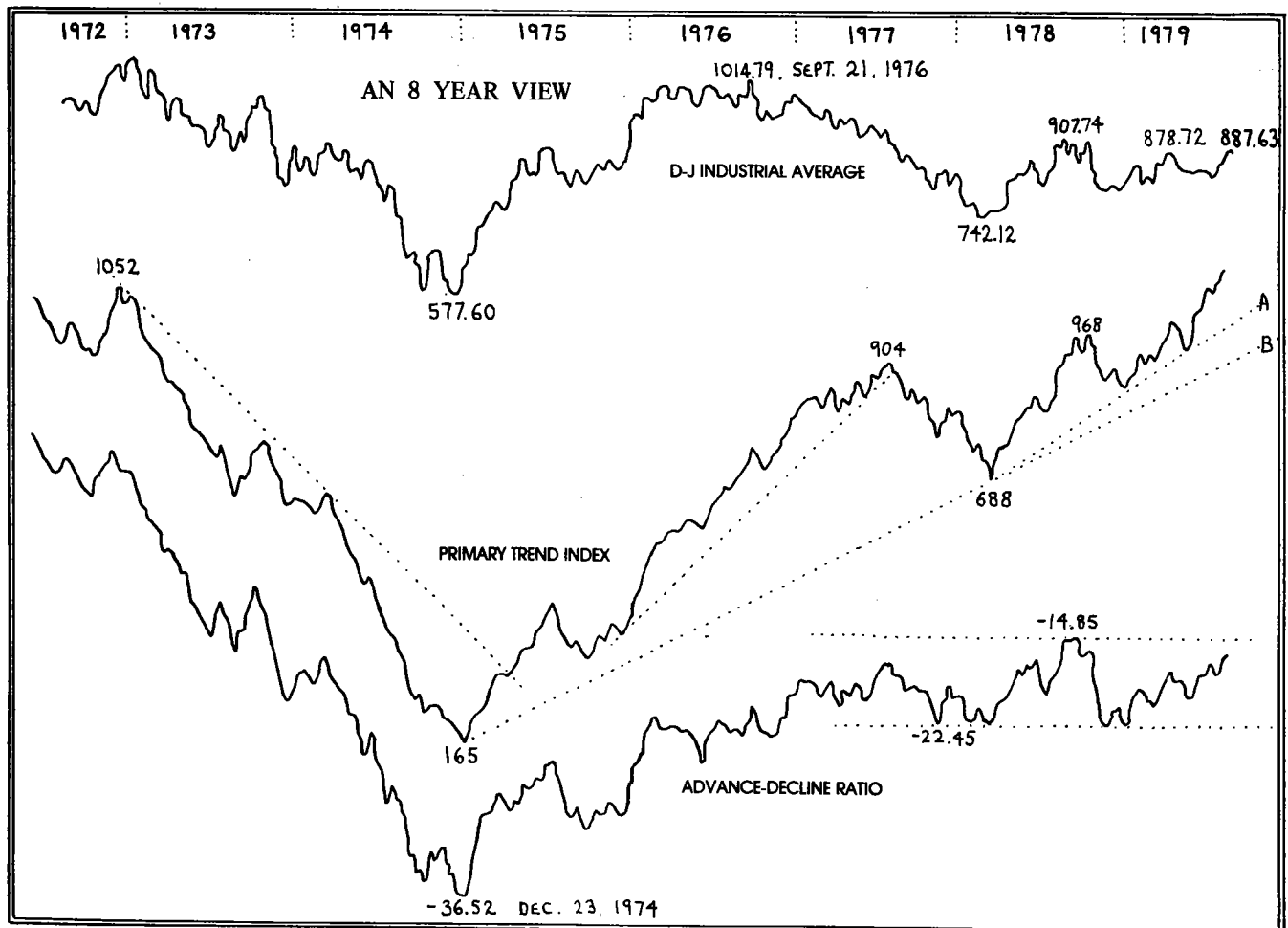
I started my daily computations of the PTI in mid-1971. In the 8 years since then I have attempted to develop the skill and

knowledge to use the PTI effectively. It is important to remember that the PTI is an indicator which measures the *technical build-up or deterioration in the market*. Therefore, when the PTI is in a broad rising phase it is necessary to note whether certain portions of the market or the whole market is rising. Once you identify the strong part of the market, you should move into it and stay there until PTI strength ebbs. Obviously, shorts should never be put out while the PTI is in a major rising phase. The opposite is true when the PTI is in a broad declining phase.

Study the chart. During the 1973-74 slump the PTI declined steadily, losing an amazing 997 points during those two years. The PTI hit bottom in December, 1974 at a value of 165. From there it turned sharply higher. In early-1975 the PTI reversed its major declining trendline. By July 22, 1977, the PTI had recovered 739 points, taking it to 904. But note that the Dow had already topped out, having recorded a 1976 high of 1014.79 (a high that has still not been bettered).

Following the 904 high, the PTI headed down again, dropping 216 points to the February, 1978 low of 688. The Dow tumbled to a February low of 742.12, while the A-D ratio (a proxy for the general market) hit a low of minus 22.45.

A new advance got underway, and it is here that some extraordinary action was seen. On September 11, 1978 the A-D ratio struck a peak of minus 14.85. Note, however, that the A-D ratio had actually formed a massive horizontal pattern, a pattern that has contained all the A-D action since 1976. Despite the sideways action of the A-D ratio, the PTI continued to show amazing strength. By October 11, 1978, the PTI recorded a recovery high of 968. The still-lagging Dow established a top of 907.74 on September 8.



Boiled down to its essence, what do we now see? We see a peak in the Dow at 907.74 (September, 1978). We see an important top in the A-D ratio at minus 14.85 (September, 1978). But the fascinating part of the picture is that the PTI has continued to climb. This month (September) the PTI advanced to a new high, even bettering its 1052 peak of 1972!

\*I've spent hours studying this chart and pondering its implications. Here's what I think it's telling us. The PTI is telling us that the technical strength of the broad market remains in force, still intact. On August 15 the Dow provided a first bullish upside confirmation by bettering 878.72 and thereby rising to a new high of 887.63. As this is written, the A-D ratio is still holding within its horizontal trading range. But the A-D is only 1 point below the upper extremity of that range at minus 14.85.

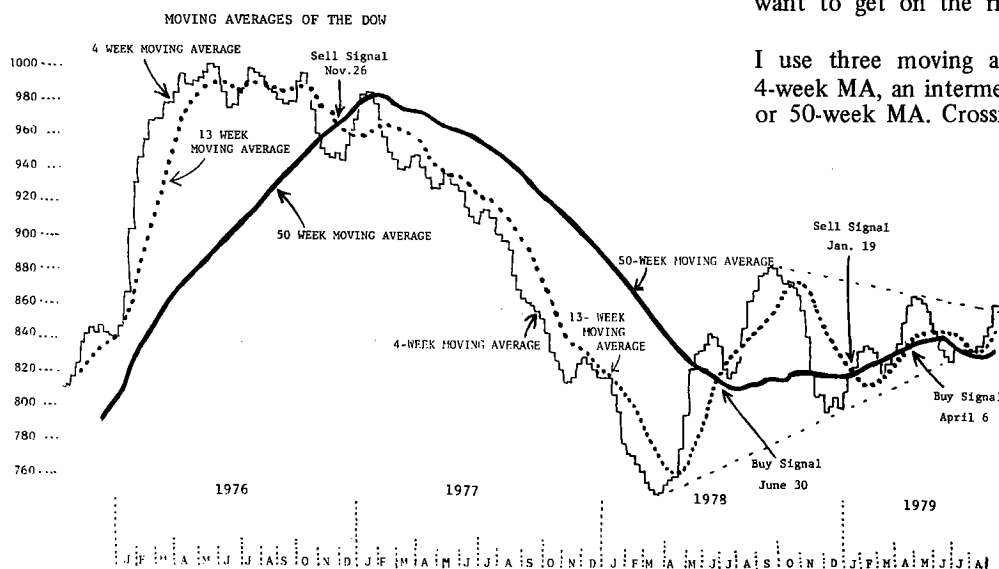
What can I say of the extraordinary performance of the PTI during 1978 and 1979? If it were not for the 1973-74 experience, I would have concluded long ago that there was a built-in upward bias in the PTI. But noting the 1973-74 action, we can see that the PTI is perfectly capable of going into a protracted downside collapse. Therefore, my only conclusion is that the steadily rising PTI is saying that better things lie ahead.

**Question:** Russell, how would you identify the spark that would set off a big move, the kind of move that "should" accompany this kind of strength in the PTI?

**Answer:** If this market is really going to take off, I would expect the Dow to rally first above the 1979 high of 878.72 (which has occurred), then above the 1978 high of 907.74. At the same time I would expect the A-D ratio to push above its 1978 high of minus 14.85.

**Question:** What do you make of the resistance on the part of the Dow and the A-D ratio in the face of the PTI strength? Is this an ominous technical development?

**Answer:** This has been an erratic and in many ways an unprecedented market. There is no doubt that a lot of indices are out of gear. I think this market is safe and potentially explosive as long as the PTI continues higher. IF the trend of the PTI turns down, I will be watching the A and B trendlines on the chart. If trendline A breaks, I will be cautious. If B is broken, I will advise a very defensive position.



**Question:** If the stock market is, in fact, going into a 5th giant bull wave, a wave that will wind up the great Elliott bull market as shown in the last Letter, how long could this 5th wave last?

**Answer:** It was just announced that the Conference Board's consumer confidence index has dropped for the 6th month in a row. My studies of markets indicate that it generally takes one year for consumers to reverse their sentiment from a rising bearish trend to a rising bullish trend. Thus, if the reversal process was to start this month (which is doubtful) it would take another year for the public to move to a rising bullish phase. Then add another year or even two for the expression of this rising bullish sentiment, and you are into late-1981 or 1982. Thus, if I had to guess as to when the final 5th wave was to end, I would say 1982 or 1983 (I take the longer view, because I am also allowing for Government intervention, which always tends to hold back the natural market forces).

**Question:** Russell, how do you view the actual financial scene? With business loans soaring, the prime rate at a record high and the bank credit picture bearish, aren't all the markets on shaky grounds?

**Answer:** Barron's Confidence Index (ratio of high grade stocks to medium grade) is above 93, a high level. Thus, the bond market is not worried about the quality of credit. The NYSE Financial index (over 200 finance-connected stocks) is showing superior relative strength. I cannot see financial trouble hitting the banks or the nation while these two very fundamental indices are in a bullish phase. If financial trouble is brewing, the timing is not now.

**MOVING AVERAGES:** This is a study I've presented many times in these Letters, and I subtitle the study "operation fail-safe." I term the moving averages a fail-safe device because if you follow the signals you must be on the right side of every major move in the Dow (and usually the market). The catch (and there's always a catch) is that the moving averages can produce occasional whip-saws.

Whip-saws occur when a number of false signals are given during a limited period of time. Such false signals are rare, but they do occur (if they didn't, we would have the perfect system for beating the market, and there obviously is no such thing). At any rate, I feel that the cost of a few whip-saws (although unpleasant) is a small price to pay for those who wish to avoid potential downside collapses and for those who want to get on the right side of potential major advances.

I use three moving averages of the Dow, a short-term or 4-week MA, an intermediate or 13-week MA, and a long-term or 50-week MA. Crossings of the 4-week above or below the 13-week MA provide buying and selling alerts. Crossings of the 13-week above or below the 50-week MA give us the important buy or sell signals. The latter major signals are the ones we act on.

Let's study the recent history of the moving averages. Note on the chart that a major sell signal was given on November 26, 1976 as the 13-week MA dropped below the 50-week MA. Anyone obeying this signal (and I did) would have avoided a long drawn-out bear market.

The sell signal remained in force for 18 months—until June, 1978. At that time the MA's gave a buy signal as the 13-week MA again rallied above the 50-week MA. Then, 7 months later, a sell signal was rendered (January 19, 1979). At this point it became clear that the Dow was caught in an immense triangular formation (see chart), and that whip-saws were the order of the day.

A new buy signal was given on April 6, 1979. This buy signal is still in force. My experience with the moving average study indicates that each time an unprofitable buy or sell signal is given, the odds increase that the NEXT signal will be a valid one, a signal that will be followed by a major move in the direction of the signal.

So recent history shows that we received a buy signal in mid-1978, a sell signal in January, 1979, and a new buy signal in April, 1979. On the strength of the thesis that the third signal in a little over a year should be a good one, I recommended purchase of stocks in recent Letters. Furthermore, I noted that the action of the 4-week MA since March, 1978, had traced out a huge symmetrical triangle on the chart. If the 4-week MA can move decisively above 860 it will have rallied above the upper triangle limits, and this would appear as a bullish action. Thus, I felt that a move into selected stocks would be a calculated move worth making.

**FLOODTIDE:** About a year-and-a-half ago I was driving through the town of Vista (about 30 miles north of San Diego). Vista is an avocado growing area, and its main street looks like a mixture of a farm town and a franchise paradise. But something made me stop and blink there on main street. It was a new building housing none other than The Chartered Bank of London. Now what the devil, I mused, would the stately Chartered Bank of London be doing in little Vista? I couldn't get that puzzle out of my mind.

Since then it's become clear to me. What we are seeing now is a great invasion in the US by the major banks in the world. Here are some startling facts. There are now about 100 foreign banks doing business in the US. These banks have combined assets of \$116 billion (compared with only \$24 billion in 1972). These same banks control 6% of the commercial banking in the US (against 3% in 1972). These banks account for 20% of all corporate lending in the US, 35% in California, and an incredible 43% of all corporate loans in New York.

Foreign banks are allowed to branch nationwide, whereas US banks cannot. Foreign banks provide many services that US banks are not set up to provide. And they provide Eurodollars as well as domestic dollars. Furthermore, many foreign banks are starting to change their mix, and that change will mean going for consumer and mortgage loans—and loans to smaller companies outside the major US financial centers.

This entrance of the foreign banks means a major new source of liquidity in the US. Eurocurrency is what bankers call the huge pool of paper money that lies outside the US. It is estimated to be around \$802 billion in size. Furthermore (please sit down for this one) the Eurocurrency market has grown at a compound rate of 25% since 1970. Thus, it dwarfs the US money supply and is about equal to the total US Federal debt. The Eurocurrency market is now an unbelievable ocean of liquidity, and I don't think most investors fully comprehend its meaning or implications.

But one implication of the Eurocurrency market can be seen by almost anyone who lives in NYC or in the sunbelt. Let me put it this way: the Arab world is becoming a chancey place to live for the "big money boys." Europe is going (or already is) socialist, with the exception of Switzerland and Germany. England is socialist. South America is mostly under military dictatorships. Mexico has a history of revolutions. Africa is in constant turmoil. And against all this, the fact is that the US is still the most stable place in the world (and one of the safest places) to live.

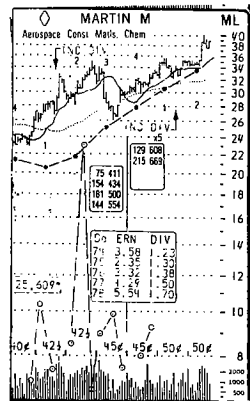
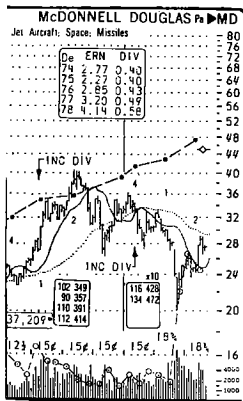
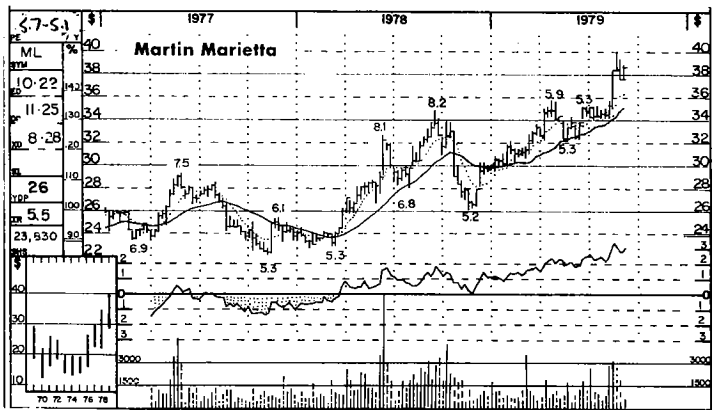
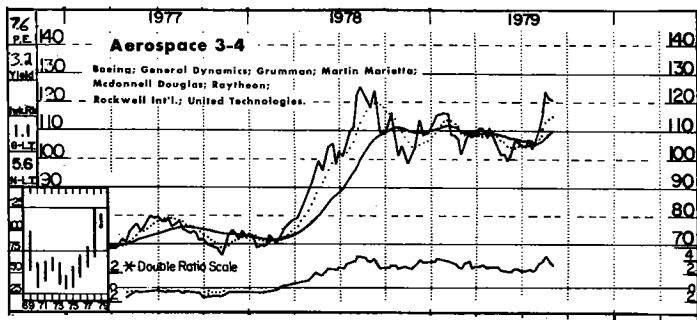
As a result, big money has been eyeing the US and buying the US. Furthermore, with the dollar now strengthening, land, homes and businesses in the US are looking increasingly attractive. Thus, there are three major forces militating towards huge pools of money moving into the US. First, the billions of dollars in the hands of foreigners (and these are inflating dollars, so that foreigners have every wish to get rid of them for something solid). Second, there is the curtailment of liberties everywhere in the world today, which makes a home or a business in the US doubly attractive. And third, there is the rush of foreign banks to get a footing in the US. All this means that billions of dollars are now flowing across the borders and into America!

The essence of this whole discussion is this: I believe the flood of Eurocurrency into the US is moving almost out of control. It is causing the Fed figures and statistics to be almost meaningless. The "out of the Fed" financing in the US today is of absolutely massive proportions, and it is getting bigger. This, to my mind, is the phenomenon that is throwing all the cycle studies and the recession expectations off course. The fact is that there is still an ocean of money available in the US. Banks still have plenty of money to lend. And if you can't get the money from your local bank, you may very well be able to get it from Barclays or Sumitomo or Standard Chartered!

What happens next? My guess is that the various governments are going to try to hold back the forces of inflation via the interest rate path. They are going to push interest rates up in the hopes of slowing the world inflation rate. We see this happening in Germany, we see it in Holland. We are now seeing the world level for interest rates rise. But raising interest rates in the face of a pool of liquidity that is compounding at a 25% a year rate is not easy! Thus, the rate of inflation could rise even as interest rates continue to rise.

So as I see it, the big "kicker," the as yet little-understood phenomenon, is the rise of the foreign banks in the US, together with their ready access to a pool of currency estimated at over \$800 billion. If money is getting scarce in the US or in the world, then I don't see it. But what I do see is the US and international money lake growing into an ocean. It's an ocean that is subject to few controls, and an ocean that's growing out of control.

**STOCKS:** To put it brutally, the US has fallen behind Russia in the defense race (more about this in the next Letter). When this dawns on the nation, there's going to be a lot of screaming to "catch up." If we're even going to appear to catch up, we're going to have to shove contracts onto our defense suppliers (most of whom are already booked up). But why guess: this chart of the Aerospace group shows (bottom of chart) that the group is evidencing superior relative strength. In the last Letter I mentioned Rockwell Int. as being in a long-term bullish pattern. Martin Marietta has been showing a string of rising earnings, and the stock is strong. I show the chart below (group chart courtesy of Mansfield, 26 Journal Square, Jersey City, NJ 07306)

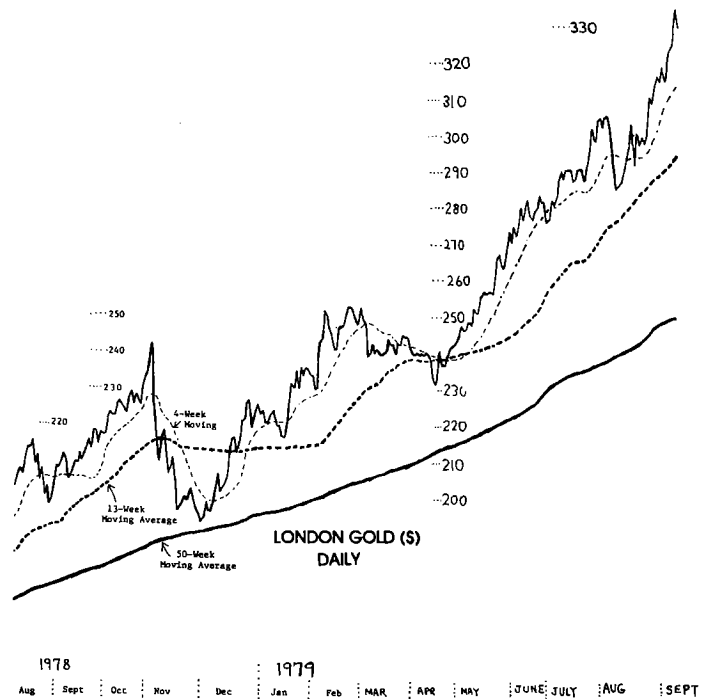


Also large Martin chart. Small Martin chart (semi-log) courtesy of Quote, PO Box 21, Wichita, Kans. 67201).

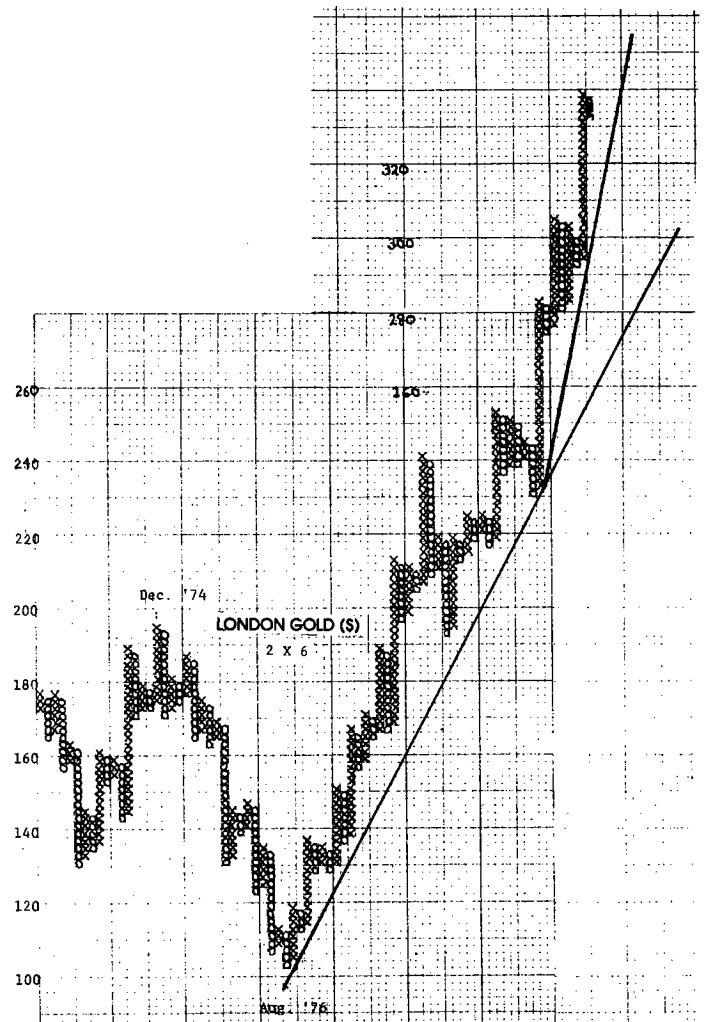
McDonnell Douglas has fallen (I think temporarily) on hard times, but I think the stock will recover in due time. This is an aggressive company, not given to crying over past troubles.

**GOLD:** No one knows how much paper money is out "there." Estimates for size of the Eurodollar market run from \$600 to \$850 billion. This is equal to the total money supply. People ask me, "Russell, what the devil is causing gold to go up?". My answer is "More buyers than sellers." This answer frustrates them so I add, "Look, there's an ocean of paper dollars floating around the US and overseas. Some of those dollar owners are getting anxious about the ever-growing ocean of paper. And each day a certain number of people make the decision to swap a fraction of those paper dollars for real money—gold. About a year ago I had lunch with John Exter here in La Jolla. At that time he told me, "Dick, we're going to see the biggest transfer from paper to gold the world has ever seen." That movement is underway now.

I've read all sorts of learned discourses about S.African gold production; world gold demand, intrinsic value studies for gold, etc. It's all grist for the talk-mills. Markets are based on



changes in investor sentiment, swings in psychology. Right now gold is in what I call a DIVERSIFICATION PHASE. People are deciding that they need diversification, they are deciding that they can't keep all their assets in paper and dollar denominated items. So they buy a certain amount of gold. As more and more people make the DIVERSIFICATION DECISION (including the Arabs), the price of gold goes up.



Right now the Arabs are the biggest dollar accumulators in the world. Each month billions of dollars flow into the Mid-east. The Arabs aren't fools. They have decided to hedge their bets. Therefore, they are putting a certain portion of those dollars into gold. The Arabs have only one problem. That problem is, how to buy all the gold they want without driving the price of gold up "too high."

So much for background chatter. This is the picture of a bull market that is INTACT. Note that it has been 5 months since spot gold has touched its 13-week moving average. We haven't had a span like this since the latest rise started in late-1976. In fact, only twice in the last 5 months has gold corrected enough to take it below its short-term or 4-week moving average.

The upside projections are falling by the wayside. Big bull markets have a habit of making fools out of "cautious bulls." The 280-300 area didn't stop gold. Then 300-320 failed to stop gold. Rumors of perpetual US gold auction sales have not stopped gold, nor have rumors of a doubling of current US auction totals. The entrance of the Canadian Maple Leaf coin has not halted gold. Only one thing, one factor will halt this bull market in gold, and that's upside exhaustion of the movement. That's the place where more gold is offered than the market can absorb. We're not there yet.

In the last Letter I presented my ratio gold chart with the comment that gold was in an exponential rise. This "feeling" can be experienced when you look at the latest trendline which I have drawn on this point & figure chart of gold. According to the chart, the primary trendline support for gold comes in at around 260. The latest (steeper) trendline support comes in at around 300. My guess is that the 300 level will offer very sound support to any downside correction.

I sometimes get discouraged with the current investment world. The classic American dream that I grew up with said something about "building for the future." There's little building for the future today, because the world of inflation tells us that the future is going to be an extension of today's monetary deterioration. Last night as I lay on my bed, I found myself mumbling and complaining (I've been known to do this) about the world. In the previous 8 hours the dishwasher had broken, the IBM composer had suffered a nervous breakdown, the phone had rung about 90 times, and I had rewritten a few pages of this Letter about a dozen times. "You know," I told my wife Paula, "I don't understand why there are so few honest people in the world. Nobody will tell the truth, nobody wants to put in an honest day's work, nobody will stand up and do their job. Multiply that by 200 million times and you've got the US today—inflation and Watergate and Vietnam and Carter and the whole grisly bit." Then that old, saving thought occurred to me—"Nobody ever promised you a rose garden, you're here to struggle and get it right. When and if you get to heaven, you can rest and enjoy yourself." So ends my night.

I've written many times that the US has (in my opinion) reached the point of "inflate or die." I don't, for the life of me, see how we can get off the inflation bandwagon at this point. I don't see this nation putting up with a recession. I don't see us balancing our budget. I don't see any administration sitting with 7% and above unemployment.

Inflation at this point seems to have taken on a life of its own. Americans won't take the pain of deflation, the pain of looking

for jobs, watching home prices crumble, etc. So we're accepting the inflation and the Governmental lies and the self-deceptions. And the irony of it is that it looks increasingly as though we may get Teddy Kennedy on top of everything else! No wonder gold is moving higher.

**NOTES & QUOTES:** Bonds: The squeeze is on with 91-day Treasury bills now at a record high of almost 10.25%. The Muni bonds are on the edge of giving a sell signal as the Fidelity Municipal Bond Fund drops to within a few pennies of the critical 9.44 level. Long term Treasury bonds have also slipped to within fractions of their record lows. The closed-end bond funds are holding better than most segments of the bond market, and this is because they have been selling at a discount from net assets. In England the yield on bonds went up over 16% during the recent squeeze. The US bond market still provides a NEGATIVE yield since bond yields remain under the current US inflation rate of 13% (a positive yield would result in a 15% to 16% yield on bonds and a further collapse in the bond market). My guess—Volcker won't squeeze too much longer in the money market. The business news is starting to turn a bit sour—but only in spots and specific areas such as retail and autos.

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Many comments received regarding those stock-to-housing charts in Letter 763. They were prepared by John Goode of Davis, Skaggs & Co., 160 Sansome St., San Francisco, Calif.

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My poor wife Paula had to move into my bachelor house when we got married 2½ years ago, but somehow (I can't understand why) she never loved my bachelor home. So after much looking around and gnashing of teeth, we found a new home last July. And a few weeks ago we moved in. It's a great house (built in 1938, so you know it's built right). Paula loves it, I love it, and son Ryan is wild about it, but between my speech in San Francisco, moving and getting this Letter out—I'm tired! But I know one thing for sure—this will be my last move. I hate moving, and I told Paula when my time comes to just bury me in the back yard.

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**RANDOM THOUGHTS:** Every week I meet or dine with men and women who are in charge of millions in assets (often their own). To the outsider, the possessor of millions must seem a strange shadowy figure, hunched happily and secretly over his desk as he watches his Quotron machine flash out the latest prices, prices that are calculated to boost the millionaire's fortune to even greater heights.

If that is your picture of how it works, forget it. I never knew a wealthy man (or a money manager) who didn't know how to perspire, and from what I've seen they sweat fully as much as you and I. I'll offer another observation: "The wealthier the man, the more questions on his mind and the more questions he'll ask." The average man asks few questions because he doesn't have that much to lose (except his debts). The millionaire asks many questions because he has a lot to lose, and he's very concerned these days about losing.

I had dinner last month with two money managers who are part of the management team of one of the largest pension funds in the nation (\$1.2 billion). The subject of wealth (surprise!) came up, and we talked about two different types of personalities.

"You know," I said, "it's hard for me personally to understand the motives behind the man who has made five or ten million, a man who will then go out and stake his entire fortune (plus more) on a new enterprise or a tremendous expansion of his

existing enterprise. I could never understand why that man wouldn't simmer down and try to enjoy what he had rather than laying the whole bundle on a new speculation which might or might not work."

"Ah," said one of the managers, "that kind of man lives on the excitement of the markets. He wouldn't know how to enjoy anything else. It's the power, the excitement and the dream of even greater power that motivates this man" he added.

"I'm sure you're right," I said, "and I can relate to it, but it's not my cup of tea." I like to think and I always find myself questioning what I'm doing. Thinking and questioning takes time and energy. and the man who's trying to turn two million into four and four into eight has no spare time. He's got his work cut out for him, and I just can't live that way.

**ADDITIONAL MARKET NOTES:** I couldn't resist including these two charts. The first presents a rather dramatic picture of the broad NYSE Industrial Average in a sideways pattern that has been forming since 1966. I find myself wondering what will happen if the NYSE Index breaks out above the 1973 upper limits. It could be quite an explosion (and a shock to 50 million shorts). On the other hand, a sell-off here would simply appear to increase this huge, basing action. (Chart courtesy of Market Charts, 2 E. 86th St., NYC).

The second chart should be studied carefully. It is a great study of Dow values based on price/dividends, price/earnings and book value. The 4th line is an extraordinary composite of the first three. Note on the composite that the Dow is now cheaper than it was in 1974 and can only be compared in value to the fabulous bull market bottom areas of 1949-50 and 1932-33! This is undoubtedly the basic reason why the market is so resistant to the bad news which is now gushing forth. This chart is put out by Growth Fund Research of Yreka, Calif. 96097, an outfit that does a lot of solid research work.

**LATE MARKET COMMENTS:** The market closed the week of September 7 with the PTI within 8 points (which can be achieved in a single strong day) of its 9 year high. Any strength on the week beginning Sept. 10 will put the PTI at a new high. Meanwhile, gold is swinging wildly higher. On one day last week the gold futures opened "limit" up, dropped limit down, rallied, then closed at the low. The next day gold opened slightly higher—then closed limit up. This means that all stop losses are "touched off," and traders are all knocked out of the box. You can't trade gold futures in this kind of market (I don't advocate trading gold anyway), you buy the coins and sit!

